

Message Text

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SUBJECT: 1976 COMMISSION ECONOMIES AND FINANCIAL WORK
PROGRAM

1. BEGIN SUMMARY: PRESIDENT ORTOLI RECENTLY OUTLINED THE 1976 COMMISSION WORK PROGRAM WHICH HIGHLIGHTED NEW MEASURES TO STRENGTHEN EC ECONOMIC INTEGRATION. ORTOLI PROPOSED INCREASING MEMBER STATE COORDINATION REGARDING BUDGETARY AND MONETARY POLICIES, AND ENLARGING THE ROLE OF THE EUROPEAN MONETARY COOPERATION FUND, INCLUDING THE POOLING OF SOME MEMBER STATE RESERVES. HE GIVES PRIORITY TO THE INCLUSION OF LABOR AND MANAGEMENT IN MEDIUM-TERM PLANNING. THE COMMISSION WILL PROPOSE MEASURES TO HARMONIZE FURTHER EC TAX AND BANKING REGULATIONS. OFFICIALS HERE, HOWEVER, BELIEVE MANY OF THESE PROPOSALS ARE NOT REALISTIC AND THE MEMBER STATES ARE NOT LIKELY TO ACT ON THEM IN THE FORESEEABLE FUTURE. END SUMMARY.

2. POLICY GUIDELINES: EC COMMISSION PRESIDENT ORTOLI OUTLINED THE COMMISSION'S 1976 WORK PROGRAM TO THE EUROPEAN PARLIAMENT ON FEBRUARY 10. THIS MESSAGE SUMMARIZES THOSE ASPECTS DEALING WITH FINANCIAL POLICY. THE COMMISSION WILL SHORTLY
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SUBMIT ITS ECONOMIC POLICY GUIDELINES FOR 1976 AND IN JUNE

WILL PROPOSE GUIDELINES FOR THE 1977 PRELIMINARY ECONOMIC BUDGETS.

3. THE SNAKE: ORTOLI BELIEVES THE EC CURRENCY EXCHANGE SYSTEM NEEDS TO BE CONSOLIDATED TO STRENGTHEN ECONOMIC INTEGRATION. THE COMMISSION WILL HELP MEMBER STATES WHOSE CURRENCIES ARE FLOATING TO RE-ENTER THE EUROPEAN MONETARY SNAKE. IN LINE WITH THE RAMBOUILLET ARRANGEMENTS TO AVOID ERRATIC RATE MOVEMENTS, THE COMMISSION WILL STRIVE TO COORDINATE INTERVENTIONS, PARTICULARLY VIS-A-VIS THE DOLLAR. THE SNAKE SHOULD BE INCORPORATED WITHIN EC PROCEDURES SO THAT SNAKE MEETINGS WOULD BE WITHIN THE EC FRAMEWORK.

4. EMCF AND EUA: ORTOLI PROPOSES STRENGTHENING THE ROLE OF THE EUROPEAN MONETARY COOPERATION FUND (EMCF) IN ORDER TO OVERHAUL THE EC CURRENCY EXCHANGE SYSTEM. IFM GOLD RESTITUTIONS TO THE MEMBER STATES MIGHT BE DEPOSITED WITH THE EMCF. THESE RESERVES, WHICH COULD BE SUPPLEMENTED IF NECESSARY COULD BE USED FOR SHORT-TERM FINANCING. THE EMCF WOULD ASSESS MEMBER STATE MONETARY POLICIES IN ORDER TO ENCOURAGE CLOSER COLLABORATION AMONG THE MEMBER STATES. THE COMMISSION PLANS TO URGE THAT THE MEMBER STATES AGREE AMONG THEMSELVES EACH YEAR TO A MONEY SUPPLY GROWTH RATE WHICH WOULD BE COMPATIBLE WITH INTERNAL AND EXTERNAL EQUILIBRIUM.

5. EUA: THE MCF SHOULD USE THE EUROPEAN UNIT OF ACCOUNT (EUA) FOR SETTLEMENTS BETWEEN MONETARY AUTHORITIES AND AS A RESERVE INSTRUMENT. USE OF THE EUA SHOULD ALSO BE EXTENDED TO EC BANK DEPOSITS, TO THE DENOMINATION OF EC LOANS AND TO THE ACCOUNTS OF FIRMS DEALING WITH EC INSTITUTIONS. IN ADDITION, THE EUA SHOULD BE APPLIED TO THE EC BUDGET BY 1978. THE EC SHOULD EXPLORE THE POSSIBILITY OF EVENTUALLY DEVELOPING THE EUA AS A PARALLEL CURRENCY.

6. BOPS FINANCING: ECONOMIC RECOVERY WILL CAUSE BALANCE OF PAYMENTS DEFICITS IN SEVERAL MEMBER STATES. THE EC SHOULD DRAW ON ITS SHORT-TERM, MEDIUM-TERM AND COMMUNITY BORROWING FACILITIES TO HELP FINANCE THESE DEFICITS. SHOULD THESE FACILITIES PROVE INADEQUATE, THEY SHOULD BE EXTENDED. MEASURES SHOULD BE TAKEN TO ASSURE THAT MEMBER STATES RECEIVING EC LIMITED OFFICIAL USE

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CREDITS SHOULD COMPLY WITH POLICY CONDITIONS THAT ARE ATTACHED TO THEM.

7. MEDIUM-TERM POLICY: THE COMMISSION PLANS TO PRESENT IN JULY A DRAFT MEDIUM-TERM POLICY PROGRAM FOR THE 1976-80 PERIOD. IT WILL FOCUS ON THE PROBLEMS OF GROWTH AND EMPLOYMENT. THROUGH THE TRIPARTITE CONFERENCES OF LABOR, BUSINESS AND GOVERNMENT, THE COMMISSION WILL SEEK OUT COMMON SOLUTIONS

TO THE PROBLEMS FACING THE EC. AT THE NEXT CONVERENCE IN JUNE 1976, THE COMMISSION WILL ANANLYZE EC ECONOMIC AND SOCIAL PROSPECTS.

8. TAX HARMONIZATION: THE COMMISSION WILL PRESS FOR A COUNCIL DECISION ON A UNIFORM BASIS OF VAT ASSESSMENT BY JUNE 1976. SUCH A DECISION WOULD ENABLE THE EC BY 1978 TO RELY ENTIRELY UPON ITS OWN RESOURCES FOR THE EC BUDGET. THE COMMISSION ALSO PLANS TO PROPOSE HARMONIZING OTHER INDIRECT TAXES AND THE EXCISE DUTY ON SECURITY TRANSACTIONS. IT ALSO PLANS TO PROPOSE ALLOWING TAX EXEMPTIONS TO BE ADJUSTED PERIODICALLY FOR PRICE INFLATION AND FOR PROBLEMS CAUSED BY EXCHANGE RATE FLUCTUATIONS. THE COMMISSION HAS IN MIND A PROPOSAL TO HARMONIZE TAXES AFFECTING MUTUAL FUNDS AND INVESTMENT COMPANIES. IN ADDITION, IT INTENDS TO SUGGEST AN ARBITRATION PROCEDURE TO ELIMINATE DOUBLE TAXATION OF COMPANY PROFITS.

9. BANKING: THE COMMISSION GIVES PRIORITY TO COORDINATING BANK REGULATIONS AND SETTING UP A CONTACT COMMITTEE OF BANK CONTROLLERS. IT ALSO WANTS TO ESTABLISH AN EC DEPOSIT INSURANCE SYSTEM AND AN EC BUREAU TO CENTRALIZE THE EXCHANGE OF CREDIT RISK INFORMATION.

10. COMMENT: COMMISSION AND PERMDEL OFFICIALS CRITICIZE ORTOLI'S ECONOMIC POLICY PROPOSALS AS BEING UNREALISTIC. THEY NOTE, FOR EXAMPLE, THE COMMISSION HAS PREVIOUSLY PROPOSED STRENGTHENING THE EMCF BUT THE EC CENTRAL BANKS WILL CONTINUE TO RESIST THIS BECAUSE THE EMCF IS A THREAT TO THEIR INDEPENDENCE. THE MEMBER STATES WITH BOP SURPLUSES WILL RESIST POOLING RESERVES WITHIN THE EMCF BECAUSE THEY SEE THIS AS A PLOY TO OBTAIN SOME OF THEIR RESERVES. MEMBER STATES ARE ALSO LIKELY TO RESIST EXTENDING EC CREDIT FACILITIES, EXCEPT LIMITED OFFICIAL USE

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ON A CASE-BY-CASE BASIS. THE SNAKE MEMBERS ARE SATISFIED WITH THE CURRENT EMCF UNIT OF ACCOUNT BECAUSE IT IS COMPOSED OF "HARD CURRENCIES." THEY CONSEQUENTLY WILL BE RELUCTANT TO CHANGE TO THE EUA. THESE OFFICIALS ADD THAT DESPITE HORTATORY APPEALS THE EC CANNOT AT PRESENT ADOPT MEAINFUL MONETARY POLICY GUDELINES BECAUSE OF EXISTING ECONOMIC DISPARITIES. PROGRESS HAS ALSO BEEN EXTREMELY SLOW IN HARMONIZING EC TAX AND BANK REGULATIONS. THE MEMBER STATES DO NOT APPEAR TO WANT TO CHANGE THIS SITUATION. END COMMENT.HINTON

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